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MONTANA STATE LIBRARY
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revenue

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# 1995 annual report

MONTANA STATE LIBRARY
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montana wins

The Montana Lottery presents its Fiscal Year 1995 Annual Report, including audited financial statements for the years ending June 30, 1995, 1994 and 1993. Information is also presented summarizing revenue and expenses, as well as transfers which fund essential programs for the State of Montana.

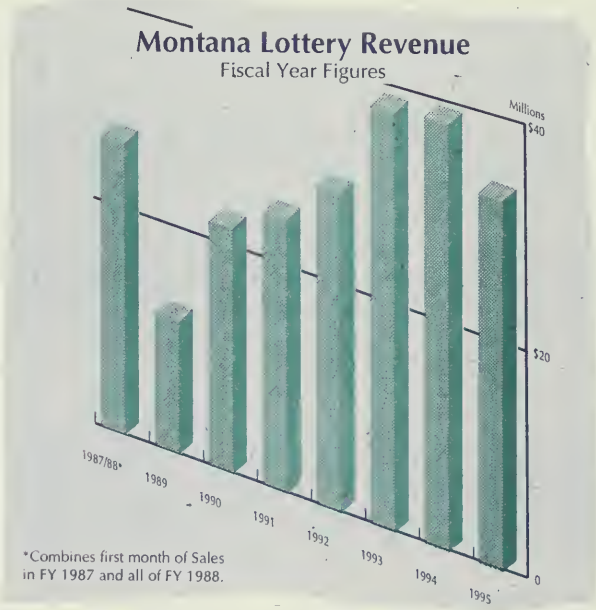
Through June 30, 1995, the Lottery has transferred over $52 million to fund state programs, and paid prizes to winners of over $100 million. In the most recent fiscal years, the expenses of operating the Lottery have remained virtually constant, averaging 8.2 percent.

The Lottery continues its pursuit to operate efficiently and effectively to provide the greatest benefit to the programs which are funded through Lottery profits.

**Revenue:** Ticket sales, earnings on investments and licensing fees.

**Prizes:** A minimum of 45 percent of all sales revenue is returned to players in the form of prizes.

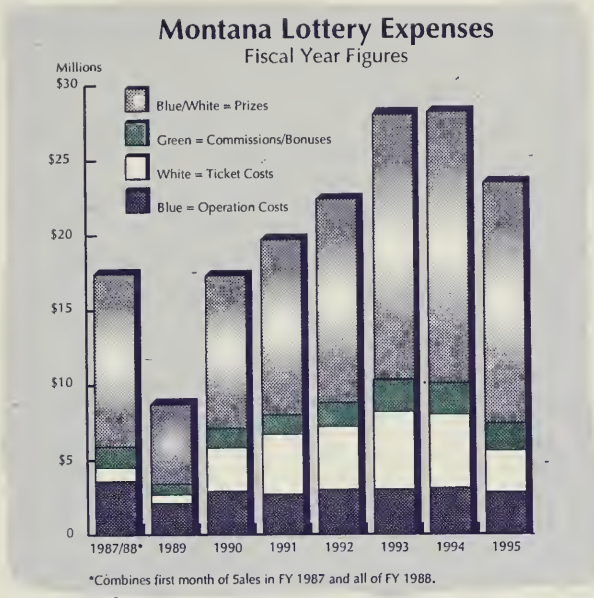
**Commissions/Bonuses:** Lottery retailers earn a five percent base commission on each ticket sold. They also have an opportunity to earn additional commissions through a SCRATCH ticket retailer incentive program. Every SCRATCH ticket sold over an established base qualifies retailers for an incremental bonus of one to five percent.



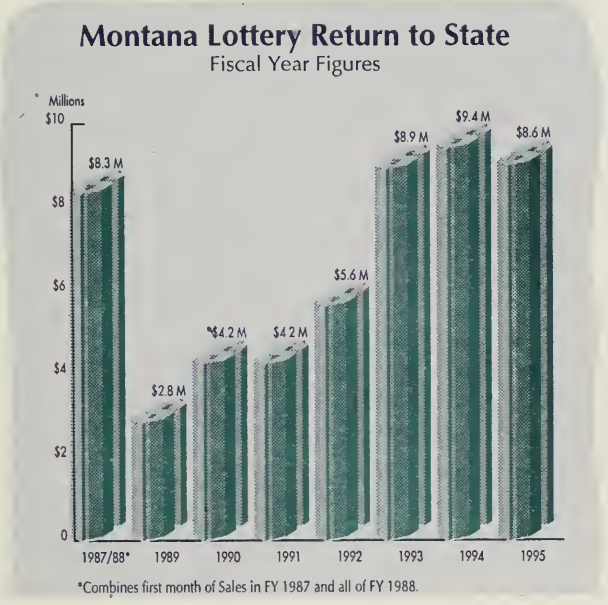

***Through fiscal year 1995 revenues total $217.9 million.***

**Ticket Costs:** In fiscal year 1995, each SCRATCH ticket cost approximately 5 cents and each on–line ticket cost approximately 11.5 cents.

Revenue and expense trends are strongly influenced by changes in the Lottery's game mix. The first significant change in product mix occurred in November 1989, midway through fiscal year 1990, when the Lottery introduced the first of its on–line games, Lotto* America. The increased costs associated with the on–line products are reflected in the increase in ticket costs beginning in fiscal year 1990.




***Expenses decreased in fiscal year 1995 directly related to sales.***




***Montana Lottery has transferred over $52 million to fund essential State programs.***

**Operations:** The Montana Lottery is responsible for marketing and sales of all Lottery products; public and media relations; the security of all elements of the Lottery; warehousing and inventory control; and Lottery operations which include accounting, fiscal management, and data processing.

**OPI/State Equalization Aid Account:** At the end of each quarter in fiscal year 1995, the Lottery was required by law to transfer 90.9 percent of its net revenue to the State Equalization Aid Account. This account funded Montana's elementary and secondary public schools. To date the Lottery has transferred over $49 million to Montana's public schools.

**The Board of Crime Control:** In fiscal year 1992, the Board of Crime Control began receiving Lottery revenues to fund administrative costs associated with juvenile detention centers in Montana. That year, the Lottery transferred 1.6 percent of its net revenue, for a total of $89,325. Beginning in fiscal year 1993, 9.1 percent of the Lottery's net revenue (not to exceed $1 million per fiscal year) was transferred to the Board of Crime Control. Through June 30, 1995, the Board of Crime Control had received over $2.6 million.

Beginning July 1, 1995, Lottery net revenue is transferred on a quarterly basis to the General Fund for the State of Montana. This change was enacted in the 1995 Legislative Session.

# auditor's report

August 25, 1995

To the Commission
Montana State Lottery
Helena, Montana

We have audited the accompanying financial statements of the Montana State Lottery (Lottery), an enterprise fund of the State of Montana, as of and for the years ended June 30, 1995 and 1994. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Montana State Lottery as of June 30, 1993 were audited by other auditors, whose report dated September 21, 1993 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Montana State Lottery and are not intended to present the financial position of the State of Montana and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana State Lottery, an enterprise fund of the State of Montana, as of June 30, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated August 25, 1995 on our consideration of the State of Montana's internal control structure as it relates to the Montana State Lottery and a report dated August 25, 1995 on its compliance with laws and regulations.

Olmss & Associates, PC

## balance sheets

June 30, 1995, 1994 and 1993

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents (note 2) | $ 2,647,262 | $ 3,023,658 | $ 3,078,823 |
| Accounts receivable, less allowance for doubtful receivables of $6,375 in 1995, $8,453 in 1994, and $4,842 in 1993 | 525,276 | 872,264 | 1,703,655 |
| Inventory | 393,848 | 218,247 | 125,860 |
| Other current assets (note 3) | 64,781 | 147,404 | 26,223 |
| TOTAL CURRENT ASSETS | 3,631,167 | 4,261,573 | 4,934,561 |
| FIXED ASSETS | | | |
| Furniture, fixtures, and equipment | 1,042,093 | 1,569,363 | 1,566,281 |
| Accumulated depreciation and amortization | (662,490) | (1,403,559) | (1,361,318) |
| | 379,603 | 165,804 | 204,963 |
| OTHER ASSETS | | | |
| Long-term receivable (note 4) | 1,461,589 | 1,131,198 | 589,144 |
| | $ 5,472,359 | $ 5,558,575 | $ 5,728,668 |
| LIABILITIES AND FUND EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | $ 225,639 | $ 206,921 | $ 506,150 |
| Estimated prize liability (note 5) | 694,416 | 936,658 | 1,455,503 |
| Transfer obligations (note 6) | 2,376,243 | 2,656,575 | 2,787,138 |
| Other current liabilities (note 7) | 324,665 | 456,279 | 269,173 |
| TOTAL CURRENT LIABILITIES | 3,620,963 | 4,256,433 | 5,017,964 |
| LONG TERM LIABILITIES (note 8) | 1,612,353 | 1,300,782 | 709,344 |
| | 5,233,316 | 5,557,215 | 5,727,308 |
| FUND EQUITY | | | |
| Contributed capital | 239,043 | 1,360 | 1,360 |
| COMMITMENTS AND CONTIGENCIES (notes 9 and 13) | - | - | - |
| | $ 5,472,359 | $ 5,558,575 | $ 5,728,668 |

See notes to financial statements.

financial statements

# statements of revenues, expenses, and changes in retained earnings

Years Ended June 30, 1995, 1994 and 1993

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Instant ticket games | $ 7,281,701 | $ 7,844,749 | $ 9,106,433 |
| On-line games | 25,476,717 | 29,638,035 | 27,656,397 |
| License fees | 2,700 | 2,500 | 5,650 |
| TOTAL OPERATING REVENUES | 32,761,118 | 37,485,284 | 36,768,480 |
| COST OF TICKET REVENUES | | | |
| Instant ticket prize expense | 3,955,212 | 4,296,652 | 4,944,962 |
| On-line ticket prize expense | 12,196,640 | 13,851,838 | 12,797,555 |
| Retailer commission | 1,803,629 | 2,068,256 | 2,058,730 |
| On-line vendor fees | 3,214,013 | 4,560,711 | 4,790,469 |
| Cost of tickets sold | 334,186 | 381,971 | 418,984 |
| TOTAL COST OF TICKET REVENUES | 21,503,680 | 25,159,428 | 25,010,700 |
| NET OPERATING REVENUES | 11,257,438 | 12,325,856 | 11,757,780 |
| OPERATING EXPENSES | | | |
| Advertising | 548,872 | 662,623 | 695,633 |
| Communications | 152,180 | 72,351 | 73,131 |
| Contractual Services | 420,587 | 537,064 | 406,248 |
| Depreciation and Amortization | 60,814 | 42,241 | 115,606 |
| Management fees | 86,151 | 94,742 | 102,712 |
| Multi-state operating fees | 93,288 | 110,201 | 42,685 |
| Personal services | 1,105,216 | 1,155,612 | 1,186,383 |
| Repairs and maintenance | 73,887 | 82,358 | 82,020 |
| Supplies and materials | 152,583 | 162,591 | 112,447 |
| Utilities and rent | 92,845 | 92,623 | 93,745 |
| Travel | 35,762 | 36,383 | 35,820 |
| Other | 44,848 | 35,185 | 45,069 |
| TOTAL OPERATING EXPENSES | 2,867,033 | 3,083,974 | 2,991,499 |
| OPERATING INCOME | 8,390,405 | 9,241,882 | 8,766,281 |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Interest Income | 201,396 | 121,863 | 116,432 |
| Gain (loss) on disposal of fixed assets | 2,212 | - | (595) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 203,608 | 121,863 | 115,837 |
| INCOME BEFORE OPERATING TRANSFERS | 8,594,013 | 9,363,745 | 8,882,118 |
| OPERATING TRANSFERS OUT | | | |
| Montana Office of Public Instruction | (7,811,958) | (8,511,644) | (8,073,845) |
| Montana Board of Crime Control | (782,055) | (852,101) | (808,273) |
| TOTAL OPERATING TRANSFERS | (8,594,013) | (9,363,745) | (8,882,118) |
| NET INCOME | - | - | - |
| RETAINED EARNINGS, BEGINNING OF YEAR | - | - | - |
| RETAINED EARNINGS, END OF YEAR | $ - | $ - | $ - |

See notes to financial statements.

## statements of cash flows

Years Ended June 30, 1995, 1994 and 1993

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating income | $ 8,390,405 | $ 9,241,882 | $ 8,766,281 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation and amortization | 60,814 | 42,241 | 115,606 |
| Changes in assets and liabilities | | | |
| (Increase) decrease in accounts receivable | 346,988 | 831,391 | (1,042,495) |
| (Increase) decrease in inventory | (175,601) | (92,387) | 14,811 |
| (Increase) decrease in other current assets | 81,515 | (117,805) | (12,121) |
| Increase in long-term receivable | (330,391) | (542,054) | (17,321) |
| Increase (decrease) in accounts payable | 18,718 | (299,229) | 88,321 |
| Increase (decrease) in estimated prize liability | (242,242) | (518,845) | 998,255 |
| Increase (decrease) in other current liabilities | (131,614) | 187,106 | 37,306 |
| Increase in long-term liabilities | 311,571 | 591,438 | 11,097 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 8,330,163 | 9,323,738 | 8,959,740 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Operating transfers out: | | | |
| Montana Office of Public Instruction | (8,066,780) | (8,630,325) | (6,777,694) |
| Montana Board of Crime Control | (807,565) | (863,983) | (574,763) |
| NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES | (8,874,345) | (9,494,308) | (7,352,457) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Proceeds from the sale of fixed assets | 10,156 | - | - |
| Purchase of fixed assets | (44,874) | (3,082) | (89,583) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | (34,718) | (3,082) | (89,583) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest earned on investments | 202,504 | 118,487 | 113,965 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 202,504 | 118,487 | 113,965 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (376,396) | (55,165) | 1,631,665 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,023,658 | 3,078,823 | 1,447,158 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 2,647,262 | $ 3,023,658 | $ 3,078,823 |
| NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES | | | |
| Contributions of fixed assets | $ 237,685 | $ - | $ - |

See notes to financial statements.

# notes to the financial statements

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization**

The Montana State Lottery (hereafter referred to as the Lottery) was created in November 1986 by a referendum vote of the people of Montana. Section 23-7-101, Montana Code Annotated (MCA) establishes the provision of the code under which the Lottery operates. The Lottery is operated by a five-member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set ticket prices, determine the number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games with other states, and prepare financial reports. The Lottery is attached to the Montana Department of Commerce for administrative purposes.

Disposition of revenue is a minimum of 45 percent for prizes and a maximum of 10 percent for commissions to sales agents. The remaining revenue, less operating expenses, is transferred to the Montana Office of Public Instruction and the Montana Board of Crime Control.

**Reporting Entity**

The Lottery is included in the State of Montana's financial statements as an enterprise fund. In accordance with governmental accounting and financial reporting standards, there are no component units that should be included in the Lottery's financial statements.

**Basis of Accounting**

The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations similar to private business enterprises where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

**Revenue Recognition**

Sales of instant lottery tickets are made to licensed retailers who market the tickets to the public on a commission basis. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by retailers may be returned for credit. Sales are reduced for estimated ticket returns.

Sales of on-line lottery tickets are made to licensed retailers who market the tickets through the use of computerized terminals on a commission basis. Revenue is recognized on drawing dates. Tickets sold in advance of future drawing dates are recorded as deferred revenue until the ticket becomes valid for a drawing.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of interest-bearing deposits with the Montana Board of Investments short-term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

**Inventory**

Inventories consist of tickets and supplies. Ticket inventory includes instant lottery tickets that are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold. Unsold tickets are charged to cost of sales upon the end or cancellation of the related game. Supply inventory is carried at cost and expensed as used.

**Prizes**

Prepaid prizes represent prizes purchased and on-hand in advance of game awards. Prize expense is recognized based on a predetermined prize structure for each instant ticket and on-line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

**Intangible Assets**

Intangible assets represent the per ticket cost paid to Automated Wagering Inc. for advance on-line ticket sales. These ticket sales, also referred to as deferred revenue, represent tickets sold prior to June 30, 1995, 1994 and 1993 for drawings held subsequent to year-end.

**Fixed Assets**

Fixed assets are recorded at cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of fixed assets, the cost and related accumulated depreciation or amortization is removed from the accounts. Gain or loss on disposal is reflected in nonoperating revenues and expenses. Depreciation and amortization are calculated on a straight-line basis over estimated useful lives of two to ten years.

**Contributed Capital**

Contributed capital represents equity acquired through contributions from vendors and the State of Montana.

**Compensated Absences**

State employees earn vacation leave ranging from fifteen to twenty-four days per year based on years of service. Vacation leave may be accumulated to a total not to exceed twice the maximum number of days earned annually. Sick leave accumulates at a rate of twelve days per year with no maximum accumulation. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

**Reclassifications**

The Lottery has reclassified certain prior year balances to conform to the current year's presentation.

## NOTE 2 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Short-term investment pool | $2,104,119 | $2,881,100 | $2,730,600 |
| Cash on deposit with State Treasurer | 533,403 | 132,408 | 337,668 |
| Cash in revolving deposit account | 9,590 | 10,000 | 10,000 |
| Cash in transit | - | - | 405 |
| Petty Cash | 150 | 150 | 150 |
| | $2,647,262 | $3,023,658 | $3,078,823 |

Reference to the audit of the State of Montana would identify the level of risk associated with cash and cash equivalents in the short-term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $10,767, $10,258, and $19,209 at June 30, 1995, 1994 and 1993 respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

## NOTE 3 - OTHER CURRENT ASSETS

Other current assets consist of the following:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Prepaid prizes and expenses | $ 32,295 | $120,571 | $ 5,448 |
| Intangible assets | 16,602 | 12,072 | 8,390 |
| Interest receivable on investment pool | 9,653 | 10,761 | 7,385 |
| Employee advances | 4,300 | 4,000 | 5,000 |
| Other | 1,931 | - | - |
| | $ 64,781 | $147,404 | $26,224 |

## NOTE 4 - MULTI-STATE LOTTERY ASSOCIATION

**Joint Venture Association**

In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. The Lotto*America/Powerball game and the Tri-West Lotto game are presently the only games operated jointly by the members. Each lottery participating in MUSL is represented on the Board of Directors.

**Prize Reserve Fund Receivable/Payable**

As a member of the MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The contributions are to be used to fund unanticipated prize claims. All funds remitted, and the related interest earnings, will be returned to the Lottery upon leaving the association, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Lottery contributes to the reserve fund through the set-aside for prizes. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

During 1990, the MUSL Board created the unreserved accounts to record interest earned on the various prize reserve funds when the prize reserve fund balance is not below the predetermined ceiling amount. The amounts in the unreserved accounts may be used at the Board's discretion.

The long-term receivable balance of $1,461,589, $1,131,198, and $589,144 at June 30, 1995, 1994 and 1993, respectively, represents the Lottery's share of the MUSL prize reserve fund that had a balance of $47,250,261, $49,946,409, and $26,281,598 for 1995, 1994 and 1993, respectively. The long-term liability balance of $1,447,165, $1,153,060, and $571,823 at June 30, 1995, 1994 and 1993, respectively, represents the Lottery's share of the total estimated prize liability.

**Lotto'America Prizes and Investments**

Prizes awarded to Lotto'America grand prize winners are paid in twenty annual installments funded by investments in United States Treasury zero coupon bonds. Bonds purchased on behalf of Montana source winners are held in trust by MUSL with the Montana State Lottery as beneficiary. As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

At June 30, 1995, 1994 and 1993, MUSL held United States Government zero coupon bonds in trust for the Montana State Lottery winners with respective par values of $48,671,305, $51,060,111, and $54,115,254, and respective market values of $30,830,604, $29,491,684, and $30,837,895.

The Montana State Lottery has five Lotto'America winners. The combined total of future prize payments owed is $48,671,000, $51,059,000, and $54,115,000 at June 30, 1995, 1994 and 1993, respectively. Total annual payments due over each of the next five years is $3,088,000 annually and $33,231,000 thereafter. The present value of future prize payments approximates the current market value of the bonds held in trust for the Montana State Lottery winners.

**Multi-State Lottery Association Financial Position**

Information related to the Multi-State Lottery Association's audited financial statements is as follows:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Total assets | $ 910,766,450 | $ 629,173,279 | $ 494,301,889 |
| Total liabilities | 910,585,456 | 629,014,878 | 494,110,111 |
| Total fund balance | 180,994 | 158,401 | 191,778 |
| Total liabilities and fund balance | $ 910,766,450 | $ 629,173,279 | $ 494,301,889 |
| Total revenues | $ 1,917,361 | $ 2,191,190 | $ 1,625,280 |
| Total expenses | 1,894,768 | 2,224,567 | 1,710,891 |
| Excess (deficit) revenues over expenses | $ 22,593 | $ (33,377) | $ (85,611) |

## NOTE 5 - ESTIMATED PRIZE LIABILITY

The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

## NOTE 6 - OBLIGATION TO TRANSFER FUNDS

Beginning July 1, 1992, the Lottery is required to transfer, each quarter, 9.1 percent of income before transfers to the Montana Board of Crime Control. The balance of income before transfers is transferred to the Montana Office of Public Instruction. The following is a summary of total transfer obligations outstanding:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Transfer obligation - MT Board of Crime Control | $ 216,238 | $ 241,748 | $ 253,630 |
| Transfer obligation - MT Office of Public Instruction | 2,160,005 | 2,414,827 | 2,533,508 |
| Total transfer obligations | $ 2,376,243 | $ 2,656,575 | $ 2,787,138 |

Effective July 1, 1995, the Montana State Lottery is required to transfer its net revenue to the Montana State General Fund rather than the Montana Office of Public Instruction and the Montana Board of Crime Control. This change was enacted through the passage of SB 83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995.

## NOTE 7 - OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Estimated return ticket liability | $ 86,884 | $ 202,417 | $ 34,719 |
| Due to other state agencies | 93,414 | 172,930 | 185,107 |
| Deferred on-line revenue | 144,367 | 80,932 | 49,347 |
| | $ 324,665 | $ 456,279 | $ 269,173 |

## NOTE 8 - LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Prize liability Multi-State Lottery Association | $ 1,447,165 | $ 1,153,060 | $ 571,823 |
| Accrued compensated absences | 165,188 | 147,722 | 137,521 |
| | $ 1,612,353 | $ 1,300,782 | $ 709,344 |

## NOTE 9 - LEASES

The Lottery leases its office, administrative and warehouse facilities under a lease agreement expiring February 1997. The annual minimum lease payments under noncancelable operating leases, as of June 30, 1995, are:

| Year ending June 30: | |
|---|---|
| 1996 | $78,000 |
| 1997 | $52,000 |

Rent expense under operating leases charged to operations was $78,000 for the years ended June 30, 1995, 1994 and 1993.

## NOTE 10 - CONTRIBUTED CAPITAL

The following changes occurred in contributed capital:

| | JUNE 30, | | |
|---|---|---|---|
| | 1995 | 1994 | 1993 |
| Beginning balance, contributed capital | $ 1,360 | $ 1,360 | $ 1,360 |
| Donated fixed assests | 237,683 | - | - |
| Ending balance, contributed capital | $239,043 | $ 1,360 | $ 1,360 |

## NOTE 11 - EMPLOYEE BENEFIT PLANS

**Pension Plan**

All eligible employees of the Lottery participate in the Montana Public Employees Retirement System (PERS), a defined benefit, cost-sharing, multiple-employer retirement plan. The Lottery is required to contribute for full-time employees at the rate of 6.7% of annual compensation under State statute. Employees are required to contribute 6.7% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked.

The total number of Lottery employees covered during the years ended June 30, 1995, 1994 and 1993 was 37, 34, and 42, respectively. Total payroll for Lottery employees was $864,938 in 1995, $914,535 in 1994, and $945,448 in 1993. Total covered payroll was $813,839, $880,321, and $913,695 for 1995, 1994 and 1993, respectively. The Lottery's contributions were $54,557, $60,949, and $59,847 for the years ended June 30, 1995, 1994 and 1993, respectively. Benefit eligibility is age 60 with at least five years service; age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times 60% maximum of final pay. Members' rights become vested after five years of service.

# notes to the financial statements

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Lottery is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1994, (the latest information available) for the State system as a whole was $1,475,986,000. The system's net assets available for benefits at cost on June 30, 1994 were $1,202,063,000 leaving an overall unfunded pension benefit obligation of $273,923,000. The Lottery's 1994 contribution represented less than 1% of total June 30, 1994 contributions required of all participating entities. The Lottery is not responsible for any state system unfunded liability.

Ten-year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1994 annual financial report, which is available from the Montana Department of Administration.

**Deferred Compensation Plan**

The Lottery's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance. The amount of compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts deferred under the plan created under Internal Revenue Code Section 457 remain the property of the State of Montana until paid, subject only to claims of the State of Montana's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Montana in an amount equal to the fair market value of the deferred account for each participant.

## NOTE 12 - RELATED PARTY TRANSACTIONS

During the ordinary course of business, other State agencies provide certain services and supplies to the Lottery. During 1995, 1994 and 1993, total payments to other State agencies were approximately $1,383,177, $1,496,700, and $1,440,000, respectively

## NOTE 13 - COMMITMENTS AND CONTINGENCIES

**Instant Tickets**

The Lottery has signed agreements to purchase instant game tickets from Butler Brothers, Inc., through June 1996. This contract may be canceled by the Lottery with proper notification

**Maintenance Contracts**

The Lottery has signed an agreement for computer hardware and software maintenance with Stratus Computer, Inc., for $3,528 per month. This contract may be canceled by either party with proper notification.

**On-Line Vendor**

The Lottery has signed a contract with Automated Wagering International, Inc., a wholly owned corporation of Video Lottery Technologies, Inc., to provide on-line terminals, central computers, and a telecommunications network through November 1996. The contract provides for payments to be based on a percentage of weekly sales.

**Prize Contingencies**

Certain Big Spin prizes awarded are payable to the winners in annual installments spanning seventeen to twenty years with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance carrier under which purchased annuities will provide the required level of payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance carrier will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the gross amount of $2,984,559, $3,234,559, and $3,484,559 at June 30, 1995, 1994 and 1993, respectively, if the insurance carrier defaulted on their payments.

**Advertising**

The Lottery signed a contract with Wendt Advertising to provide advertising services for $12,750 per month through September 1995. The Lottery has the option to extend the contract for an additional year.

**montana lottery director**
Charmaine Murphy

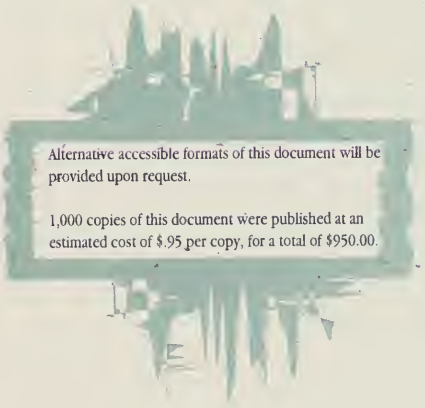
**montana lottery commissioners**
Becky Erickson, Chair
Glasgow

David Kasten
Brockway

Larry O'Toole
Plentywood

Clifford Brophy
Columbus

Robert Crippen
Butte



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